

INITIAL STATEMENT OF REASONS  
FOR PROPOSED RULE CHANGES UNDER THE  
CORPORATE SECURITIES LAW OF 1968

Pursuant to Section 11346.2 of the Government Code, the California Corporations Commissioner (Commissioner) sets forth below the reasons for the proposed amendments of Sections 260.101.2, 260.103.4, 260.105.7, 260.105.17, 260.105.33, 260.105.34, 260.217, 260.230, 260.241.4, and 260.242; and proposed repeal of Sections 260.105.37 and 260.204.11 of Title 10 of the California Code of Regulations (10 C.C.R. Sections 260.101.2, 260.103.4, 260.105.7, 260.105.17, 260.105.33, 260.105.34, 260.105.37, 260.204.11, 260.217, 260.230, 260.241.4, and 260.242).

The Department of Corporations (Department) licenses and regulates the offer and sale of securities under the Corporate Securities Law of 1968 (commencing with Corporations Code Section 25000). The proposed amendments to the California Code of Regulations are reasonably necessary to reflect changes in the names and function of certain national security exchanges, stock exchanges, markets and related entities.

Sections 260.101.2

The Securities and Exchange Commission recently approved NASDAQ National Market System registration to operate as a national securities exchange. NASDAQ renamed the NASDAQ National Market System as the NASDAQ Global Market. Prior to this, NASDAQ has been operating under the supervision and control of the interdealer quotation system of the National Association of Securities Dealers, Inc. The proposed amendment adds NASDAQ Global Market to the national securities exchange list and deletes the reference to the interdealer quotation system of the National Association of Securities Dealers, Inc.

The American Stock Exchange's "Emerging Company Marketplace" was closed on May 11, 1995. The proposed amendment adds The American Stock Exchange to the national securities exchange list and deletes reference to Emerging Company Marketplace.

In 2005, the Pacific Stock Exchange was acquired by Archipelago Holdings, which in turn was acquired by the New York Stock Exchange (NYSE) in 2006. The NYSE now operates the Pacific Exchange as NYSE Arca. The proposed amendment adds NYSE Arca to the national securities exchange list and deletes reference to the Pacific Stock Exchange.

Section 260.103.4

In 1997, the Securities and Exchange Commission approved the operation of the OTC Bulletin Board, an electronic quotation system for over-the-counter equity securities. Pink Sheets LLC also provides an electronic quotation service for over-the-

counter equity and debt securities. The proposed amendment adds the electronic service operated by Pink Sheets LLC or the OTC Bulletin Board and deletes reference to the National Daily Quotation Service.

#### Section 260.105.7

In June of 2000, the National Quotations Bureau changed its name to Pink Sheets LLC. The proposed amendment deletes reference to the National Quotation Bureau and adds the Pink Sheets LLC, the OTC Bulletin Board, and the NASDAQ Stock Market LLC.

#### Section 260.105.17

On January 13, 2006, the Securities and Exchange Commission approved the application of NASDAQ to operate as a national securities exchange. NASDAQ renamed the NASDAQ National Market System as the NASDAQ Global Market and created a new segment within the NASDAQ Global Market called the "NASDAQ Global Select Market." (References to the NASDAQ Global Market include those securities listed on the NASDAQ Global Market and the NASDAQ Global Select Market.) Due to NASDAQ's change in status, it is no longer necessary to distinguish between national securities exchanges and NASDAQ. The proposed amendment adds NASDAQ Global Market to the certified national securities exchange list.

#### Sections 260.105.33 and 260.105.34

NASDAQ converted to a national securities exchange and it no longer operates under the supervision and control of the interdealer quotation system of the National Association of Securities Dealers, Inc. The proposed amendments delete the reference to the interdealer quotation system of the National Association of Securities Dealers, Inc.

#### Section 260.105.37

The exemption from registration for securities listed on the Chicago Board Options Exchange has expired. The exemption provided remains effective only for 36 months from the effective date of the rule unless extended by order of the Commissioner of Corporations. Consequently, the effectiveness of such an exemption has lapsed and the regulation is no longer necessary. The proposed amendment repeals the regulation.

#### Section 260.204.11

The Pacific Stock Exchange no longer operates and therefore, the exemption granted to members of the Pacific Exchange, Inc. is not effective. The proposed amendment repeals the regulation.

#### Sections 260.217, 260.230, 260.241.4 and 260.242

On July 26, 2007, the New York Stock Exchange (NYSE), the National

Association of Securities Dealers (NASD) and its subsidiary, the National Association of Securities Dealers Regulation, Inc. (NASDR) consolidated to form the Financial Industry Regulatory Authority (FINRA). The proposed amendments add Financial Industry Regulatory Authority and delete any reference to NASDR.

#### ECONOMIC IMPACT GOVERNMENT CODE SECTION 11346.2(B)(4)

The Commissioner has made an initial determination that the proposed regulatory action for requirements will not have a significant adverse impact on business.

#### FISCAL IMPACT

Cost to local agencies and school districts required to be reimbursed under Part 7 (commencing with Section 17500) of Division 4 of the Government Code: None.

No other nondiscriminatory cost or savings are imposed on local agencies.

#### DETERMINATION

The Commissioner has made an initial determination that the proposed regulatory action will not have a significant adverse economic impact on business.

#### TECHNICAL STUDIES RELIED UPON

The Department did not rely upon any technical, theoretical, or empirical study, report, or other similar document in proposing this regulatory action.

#### ALTERNATIVES CONSIDERED

No reasonable alternative considered by the Department or that has otherwise been identified and brought to the attention of the Department would be more effective in carrying out the purpose for which this regulatory action is proposed, or would be as effective and less burdensome to affected private persons, or would lessen any adverse impact on small business.